

**WATERLOO WATER WORKS**  
**(A COMPONENT UNIT OF THE CITY OF WATERLOO, IOWA)**

**FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2014 AND 2013**

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**WATERLOO WATER WORKS  
TABLE OF CONTENTS  
YEAR ENDED DECEMBER 31, 2014 AND 2013**

**INTRODUCTORY SECTION**

<b>ORGANIZATION SCHEDULE</b>	<b>1</b>
------------------------------	----------

**FINANCIAL SECTION**

<b>INDEPENDENT AUDITORS' REPORT</b>	<b>2</b>
-------------------------------------	----------

<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	<b>5</b>
---	----------

<b>FINANCIAL STATEMENTS</b>	<b>6</b>
-----------------------------	----------

<b>STATEMENTS OF NET POSITION</b>	<b>11</b>
-----------------------------------	-----------

<b>STATEMENTS OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION</b>	<b>13</b>
---	-----------

<b>STATEMENTS OF CASH FLOWS</b>	<b>14</b>
---------------------------------	-----------

<b>NOTES TO BASIC FINANCIAL STATEMENTS</b>	<b>16</b>
--	-----------

**REQUIRED SUPPLEMENTARY INFORMATION**

<b>SCHEDULE OF FUNDING PROGRESS FOR PENSION PLAN</b>	<b>27</b>
--	-----------

**SUPPLEMENTARY INFORMATION**

<b>STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION – BUDGET AND ACTUAL (CASH BASIS)</b>	<b>28</b>
---	-----------

**OTHER REPORTS SECTION**

<b>INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i></b>	<b>30</b>
--	-----------

<b>SCHEDULE OF FINDINGS AND RESPONSES</b>	<b>32</b>
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## **INTRODUCTORY SECTION**

**WATERLOO WATER WORKS  
ORGANIZATION SCHEDULE  
DECEMBER 31, 2014 AND 2013**

Board of Trustees	Title	Term Expires
Terry Kuntz	Chair	1/12/2018
Mary Potter	Vice-Chair	1/12/2016
Scott Wienands	Trustee	1/12/2020

Administration
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Dennis Clark	Secretary, Treasurer and General Manager
Rick Wilberding	Assistant Treasurer and Distribution Manager
Mary Ratkovich	Assistant Treasurer and Office Manager
Tim Robbins	Water Production Manager

## **FINANCIAL SECTION**

## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Waterloo Water Works  
Waterloo, Iowa

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Waterloo Water Works (the Water Works), a component unit of the City of Waterloo, Iowa as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Water Works' basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Water Works' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Water Works' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Waterloo Water Works as of December 31, 2014, and the respective changes in its financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of funding progress, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Water Works' basic financial statements. The Statement of Revenues, Expenditures and Changes in Net Position – Budget and Actual (Cash Basis) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Statement of Revenues, Expenditures and Changes in Net Position – Budget and Actual (Cash Basis) is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 12, 2015, on our consideration of Waterloo Water Works' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Waterloo Water Works' internal control over financial reporting and compliance.

Board of Trustees  
Waterloo Water Works

**Other Matter**

The financial statements of Waterloo Water Works as of December 31, 2013, were audited by other auditors whose report date March 11, 2014, expressed an unmodified opinion on those financial statements.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Cedar Rapids, Iowa  
May 12, 2015

## **REQUIRED SUPPLEMENTARY INFORMATION**

**WATERLOO WATER WORKS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED DECEMBER 31, 2014 AND 2013**

The management's discussion and analysis is designed to offer readers of the Water Works' financial statements a narrative overview and analysis of the financial activities of the Water Works for the years ended December 31, 2014 and 2013. Readers are encouraged to read the Management's Discussion and Analysis in conjunction with the Water Works' financial statements.

**Financial Highlights**

The Water Works' assets exceeded its liabilities by \$31,580,863 as of December 31, 2014. Of this amount, approximately \$6,705,371 may be used to meet ongoing obligations to the citizens and creditors. The remaining net assets are invested in capital assets, net of related debt.

- The operating revenue of the Water Works exceeded operating expenses by \$1,565,701 and 1,367,028 for the years ended December 31, 2014 and 2013, respectively.
- As of December 31, 2014, the Water Works' current assets exceeded total current liabilities by \$6,424,217.
- The Water Works has loans payable outstanding of \$416,000 as of December 31, 2014.

**Overview of the Financial Statements**

Management's discussion and analysis is intended to serve as an introduction to the Water Works' basic financial statements. The Water Works is a single purpose component unit of the City of Waterloo, Iowa (City). The Water Works provides water to its customers at rates designed to recover the cost of providing the water, including costs associated with installation and maintenance of water pumping, storage and transmission systems. As a result, the Water Works prepares financial statements as a single enterprise fund in a manner similar to a private-sector business.

The statements of net position present information on all of the Water Works' assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Water Works is improving or deteriorating.

The statements of revenue, expenses and changes in net position present information showing how the Water Works' net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenue and expenses are reported in this statement for some transactions that will result in cash flows in the following year.

The statements of cash flows present information showing major sources and uses of cash by four types of activities. The activities are operating; noncapital financing; capital and related financing; and investing. Also included is a schedule which reconciles income from operations to net cash provided by operating activities.

The basic financial statements can be found on pages 10 through 14 of this report.

**WATERLOO WATER WORKS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED DECEMBER 31, 2014 AND 2013**

**Overview of the Financial Statements (Continued)**

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. Notes are considered to be an integral part of financial statements prepared in accordance with generally accepted accounting principles. The notes to the financial statements can be found on pages 15 through 25 of this report.

**Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of the Water Works' financial position.

The Water Works' assets exceeded its liabilities by \$31,580,863, \$29,260,897 and \$27,411,271 on December 31, 2014, 2013 and 2012, respectively.

The following is a summary of the composition of net position as of December 31:

**Table 1  
STATEMENT OF NET POSITION**

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Current Assets	\$ 8,085,247	\$ 7,823,604	\$ 7,458,943
Noncurrent, Noncapital Assets	431,134	797,920	816,414
Capital Assets, Net of Accumulated Depreciation	<u>25,291,492</u>	<u>23,451,608</u>	<u>22,050,871</u>
<b>Total Assets</b>	<u>33,807,873</u>	<u>32,073,132</u>	<u>30,326,228</u>
Current and Other Liabilities	1,811,010	2,050,431	1,799,545
Noncurrent Liabilities	<u>416,000</u>	<u>761,804</u>	<u>1,115,412</u>
<b>Total Liabilities</b>	<u>2,227,010</u>	<u>2,812,235</u>	<u>2,914,957</u>
Net Position:			
Net Investment in Capital Assets	24,875,492	22,338,260	21,373,736
Restricted	-	330,000	330,000
Unrestricted	<u>6,705,371</u>	<u>6,592,637</u>	<u>5,707,535</u>
<b>Total Net Position</b>	<u>\$ 31,580,863</u>	<u>\$ 29,260,897</u>	<u>\$ 27,411,271</u>

Net investment in capital assets is the largest portion of the Water Works' net position. At December 31, 2014, the net investment in capital assets is 78.8%, of total net position, and reflects its net investment in capital assets (e.g., land, buildings, machinery, equipment, meters and water supply system). The Water Works uses these capital assets to provide water and services to the citizens; consequently, these assets are not available for future spending.

The restricted component of net position represents resources that are subject to external restrictions on how they may be used.

The unrestricted component of net position may be used to meet the Water Works' ongoing obligations to citizens and creditors. It is the Water Works' intention to use these assets for future operating purposes and capital asset acquisition and improvements.

**WATERLOO WATER WORKS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED DECEMBER 31, 2014 AND 2013**

**Financial Analysis (Continued)**

The following is a summary of the changes in net position for the years ended December 31:

**Table 2  
STATEMENT OF ACTIVITIES**

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Total Operating Revenue	\$ 8,288,056	\$ 7,483,847	\$ 7,465,405
Total Operating Expenses	<u>6,722,355</u>	<u>6,116,819</u>	<u>6,142,503</u>
Operating Income	1,565,701	1,367,028	1,322,902
Non-Operating Income	462,488	571,260	573,978
Non-Operating Expenses	<u>(116,096)</u>	<u>(172,432)</u>	<u>(76,477)</u>
Income Before Contributions	1,912,093	1,765,856	1,820,403
Contributions	<u>407,873</u>	<u>83,770</u>	<u>35,841</u>
Change in Net Position	2,319,966	1,849,626	1,856,244
Net Position, Beginning of Year	<u>29,260,897</u>	<u>27,411,271</u>	<u>25,555,027</u>
Net Position, End of Year	<u><u>\$ 31,580,863</u></u>	<u><u>\$ 29,260,897</u></u>	<u><u>\$ 27,411,271</u></u>

Operating revenue is the Water Works' primary source of revenue and is generated from water sales and other services to customers. For 2014, operating revenue increased \$804,209 from 2013 due primarily to a 10% increase in water rates, which offset the increasing expense described below. For 2013, operating increased \$32,735 from 2012 due primarily to a 6% increase in water rates, which offset the increasing expense described below.

Operating expenses totaled \$6,722,355 for 2014, a \$605,536 increase from 2013 due primarily to the increase in salaries and benefit expense and depreciation expense. Operating expenses totaled \$6,116,819 for 2013, a \$25,684 decrease from 2012 due primarily to less services contributed to the City of Waterloo. Operating expenses included depreciation expense of \$670,812, \$612,317 and \$566,449 for the years ended December 31, 2014, 2013 and 2012, respectively. Depreciation expense has increased due to improvements made to the water distribution system.

Net nonoperating revenue (expense) includes interest income and expense, losses on disposals of assets and rent from leasing space for billboards and antennas. Net nonoperating revenue (expense) decreased by \$52,436 between 2014 and 2013. Rent income totaled \$139,865, \$105,191 and \$119,265 for the years ended December 31, 2014, 2013 and 2012, respectively.

**WATERLOO WATER WORKS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED DECEMBER 31, 2014 AND 2013**

**Financial Analysis (Continued)**

Capital contributions totaled \$407,873, \$83,770 and \$35,841 for the years ended December 31, 2014, 2013 and 2012, respectively. These contributions are received as "front footage" fees as property is developed with resulting taps into the Water Works' water distribution system and from private parties installing water main infrastructure in new developments.

Water services contributed to the City of Waterloo were \$271,896, \$252,545 and \$340,725 for the years ended December 31, 2014, 2013 and 2012, respectively, are equal to the value of metered water provided to the City at no charge. Operating revenue includes an amount equal to the transfer. The Water Works also provides unmetered water to the City at no charge. However, no reasonable estimate of the value of the unmetered water can be made. Therefore, the value of unmetered water is not included in the financial statements.

**Capital Assets**

The Water Works' investment in capital assets totaled \$25,291,492, \$23,451,608 and \$22,050,871 as of December 31, 2014, 2013 and 2012, respectively, (net of accumulated depreciation of \$10,400,469, \$9,781,069 and \$9,381,341 as of December 31, 2014, 2013 and 2012, respectively). This investment in capital assets includes land; buildings and improvements; water supply and distribution systems; meters; machinery; and equipment.

Major capital asset construction and acquisition during 2014 included the following:

- Determination of requirements, request for proposals, and selection processes for new CIS billing software.
- Installation or replacement of 1.54 miles of water mains.
- Installed new water main and casing to restore crossing at US Hwy 20 and Ansborough Ave.
- Installed new motor, VFD controls, switch gear, and natural gas fired auxiliary power generation unit at Well No. 19.
- Water main replacement in associated with City's annual Street Reconstruction projects.
- Upgrade and repair of well house buildings and other facilities.

**WATERLOO WATER WORKS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED DECEMBER 31, 2014 AND 2013**

**Capital Assets (Continued)**

Major capital asset construction and acquisition during 2013 included the following:

- Replacement of telephone system.
- Installation of 2.54 miles of water mains.
- Purchase of two vehicles.
- Street reconstruction projects.
- Substantial completion of Dewitt Road main extension project, Ranchero Road water main project and Shaulis Road water main project.
- Upgrade and repair of well house buildings.

Additional information about the Water Works' capital assets can be found in Note 4 to the financial statements.

**Long-Term Debt**

Total Water Works' long-term debt was \$416,000, \$1,125,000 and \$1,470,000 as of December 31, 2014, 2014 and 2013, respectively.

Additional information about the Water Works' long-term debt can be found in Notes 5 to the financial statements.

**Economic Factors and Next Year's Budget and Rates**

The Water Works' primary source of revenue is water sales. Effective January 1, 2015, water meter minimum charges increased 10% and rate blocks increased approximately 14 cents per hundred cubic feet of water. Budgeted revenue has been adjusted to reflect the increase in rates.

Operating expense for 2015 is expected to increase over the same expenditures in 2014 due to payroll step increases for new employees, insurance premium increases, contributions to the pension plan and other operating expense increases. Capital expenditures are expected to remain at a high level as the Water Works is planning to continue or commence work on the Ansborough at US Highway 20 water main crossing, the US Highway 63 Parker to Donald water main replacement project, implementation of the CIS billing software and associated interfaces, the Well No. 21 variable frequency drive and replacement standby power project; the Progress Avenue water main replacement; the Dysart Road water main replacement; the Highway 63 downtown Jefferson to Franklin water main project; the University Ave. water main replacement engineering and planning, implementation of GIS mapping and software systems; the office reconfiguration and remodel; and completion of miscellaneous main replacement projects, partially in conjunction with the City of Waterloo's Street Reconstruction Program, all at an estimated cost of approximately \$5,068,495.



**WATERLOO WATER WORKS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED DECEMBER 31, 2014 AND 2013**

**CONTACTING THE WATER WORKS' FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the Water Works' finances for all of those with an interest in the Water Works' finances. Questions concerning and of the information provided in this report or request for additional financial information should be addressed to the Waterloo Water Works, 325 Sycamore Street, Waterloo, Iowa 50703 or by phone at (319) 232-6280.

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## **FINANCIAL STATEMENTS**

**WATERLOO WATER WORKS  
STATEMENTS OF NET POSITION  
DECEMBER 31, 2014 AND 2013**

**ASSETS**

	<u><b>2014</b></u>	<u><b>2013</b></u>
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 5,391,624	\$ 5,727,375
Certificates of Deposit	430,020	106,664
Accounts Receivable	1,638,195	1,382,293
Accrued Interest	1,886	1,501
Inventories	507,034	526,633
Prepaid Expenses	<u>116,488</u>	<u>79,138</u>
Total Current Assets	<u>8,085,247</u>	<u>7,823,604</u>
<b>Other Assets</b>		
Restricted Certificates of Deposit	149,980	473,336
Unamortized Debt Issuance Costs	-	5,260
Repair Assessments Receivable	<u>281,154</u>	<u>319,324</u>
Total Other Assets	<u>431,134</u>	<u>797,920</u>
<b>Capital Assets</b>		
Land	307,000	270,896
Buildings and Improvements	1,760,202	1,754,291
Water Supply System	6,594,178	6,092,799
Distribution System	22,876,149	21,687,374
Meters and Equipment	1,173,594	1,173,594
Machinery and Equipment	2,081,407	1,981,884
Construction In Progress	<u>899,431</u>	<u>271,839</u>
Total, at Cost	35,691,961	33,232,677
Less Accumulated Depreciation	<u>(10,400,469)</u>	<u>(9,781,069)</u>
Total Capital Assets	<u>25,291,492</u>	<u>23,451,608</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 33,807,873</u></u>	<u><u>\$ 32,073,132</u></u>

See accompanying Notes to Basic Financial Statements.

**WATERLOO WATER WORKS  
STATEMENTS OF NET POSITION (CONTINUED)  
DECEMBER 31, 2014 AND 2013**

**LIABILITIES AND NET POSITION**

	<u><b>2014</b></u>	<u><b>2013</b></u>
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 172,728	\$ 130,303
Retainage Payable	49,533	-
Accrued Payroll and Benefits	96,506	80,544
Customer Deposits	36,230	34,195
Due to City of Waterloo		
Garbage Fees	371,332	358,414
Sewer Fees	665,388	686,278
Storm Sewer Fees	149,755	147,215
Due to Other Governments	57,958	61,424
Current Maturities of Long-Term Liabilities	<u>61,600</u>	<u>408,722</u>
Total Current Liabilities	1,661,030	1,907,095
<b>LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b>	149,980	143,336
<b>LONG-TERM LIABILITIES</b>	<u>416,000</u>	<u>761,804</u>
Total Liabilities	2,227,010	2,812,235
<b>NET POSITION</b>		
Net Investment in Capital Assets	24,875,492	22,338,260
Restricted for Debt Service	-	330,000
Unrestricted	<u>6,705,371</u>	<u>6,592,637</u>
Total Net Position	<u>\$ 31,580,863</u>	<u>\$ 29,260,897</u>

**WATERLOO WATER WORKS**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION**  
**YEARS ENDED DECEMBER 31, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
<b>OPERATING REVENUES</b>		
Water Sales	\$ 7,786,392	\$ 7,002,548
Metered Water Provided to City of Waterloo	271,896	252,545
Fire Protection	100,269	101,802
Billing and Collection Fees	<u>129,499</u>	<u>126,952</u>
Total Operating Revenue	8,288,056	7,483,847
<b>OPERATING EXPENSES</b>		
Salaries and Benefits	3,379,450	3,158,942
Contractual Services	995,087	879,380
Commodities	1,405,110	1,213,635
Services Contributed to the City of Waterloo	271,896	252,545
Depreciation	<u>670,812</u>	<u>612,317</u>
Total Operating Expenditures	6,722,355	6,116,819
<b>OPERATING INCOME</b>	1,565,701	1,367,028
<b>NON-OPERATING INCOME (EXPENSE)</b>		
Other Sales and Services	265,070	408,381
Interest Income	57,553	57,688
Interest Expense	(29,037)	(61,118)
Amortization	(25,684)	(3,428)
Loss on Disposal of Capital Assets	(61,375)	(107,886)
Billboard and Antenna Rent	<u>139,865</u>	<u>105,191</u>
Total Non-Operating Income (Expense)	<u>346,392</u>	<u>398,828</u>
Income (Expense) Before Contributions	1,912,093	1,765,856
<b>CAPITAL CONTRIBUTIONS</b>		
Capital Contributions	<u>407,873</u>	<u>83,770</u>
Total Contributions	<u>407,873</u>	<u>83,770</u>
<b>CHANGE IN NET POSITION</b>	2,319,966	1,849,626
Net Position - Beginning of Year	<u>29,260,897</u>	<u>27,411,271</u>
<b>NET POSITION, END OF YEAR</b>	<u>\$ 31,580,863</u>	<u>\$ 29,260,897</u>

See accompanying Notes to Basic Financial Statements.

**WATERLOO WATER WORKS  
STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2014 AND 2013**

	<u><b>2014</b></u>	<u><b>2013</b></u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from Customers	\$ 7,800,463	\$ 7,146,245
Cash Paid To or On Behalf of Employees	(3,353,806)	(3,151,874)
Cash Paid to Suppliers	<u>(2,430,249)</u>	<u>(2,124,987)</u>
Net cash provided by operating activities	<u>2,016,408</u>	<u>1,869,384</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Cash Collected on Behalf of Primary Government	12,574,395	12,577,946
Cash Collected on Behalf of Other Governments	635,150	614,951
Cash Paid to Primary Government (Less 1% Collection Fee)	(12,579,719)	(12,423,283)
Cash Paid to Other Governments (Less Collection Fee)	(644,310)	(609,014)
Cash Received from Other Services	270,656	410,412
Billboard and Antenna Rent	<u>139,865</u>	<u>105,191</u>
Net cash provided by non-capital financing activities	<u>396,037</u>	<u>676,203</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Contributed Capital	83,232	5,280
Costs of Debt Issuance	(14,032)	(799)
Proceeds from Issuance of Long-Term Liabilities	809,000	-
Repayment of Long-Term Liabilities	(1,518,000)	(345,000)
Interest Paid on Capital Loan Notes	(29,037)	(57,922)
Acquisition of Capital Assets	<u>(2,136,527)</u>	<u>(2,008,516)</u>
Net cash used in investing activities	<u>(2,805,364)</u>	<u>(2,406,957)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from the Maturities of Certificates of Deposit	300,000	280,000
Purchases of Certificates of Deposit	(300,000)	(280,000)
Interest Received	<u>57,168</u>	<u>57,205</u>
Net cash provided by investing activities	<u>57,168</u>	<u>57,205</u>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALANETS</b>	<u>(335,751)</u>	<u>195,835</u>
Cash and Cash Equivalents, Beginning of Year	<u>5,727,375</u>	<u>5,531,540</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u><u>\$ 5,391,624</u></u>	<u><u>\$ 5,727,375</u></u>

See accompanying Notes to Basic Financial Statements.

**WATERLOO WATER WORKS**  
**STATEMENTS OF CASH FLOWS (CONTINUED)**  
**YEARS ENDED DECEMBER 31, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS)</b>		
<b>TO CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating Income (Loss)	\$ 1,565,701	\$ 1,367,028
Adjustments to Reconcile Operating Income (Loss)		
to Net Cash Provided by Operating Activities:		
Depreciation	670,812	612,317
(Increase) Decrease in Assets:		
Accounts Receivable and Assessment Receivable	(217,732)	(82,282)
Inventory	19,599	(63,768)
Prepaid Expenses	(37,350)	(6,428)
Increase (Decrease) in Liabilities:		
Accounts Payable	(18,945)	33,829
Accrued Payroll and Fringe	15,962	16,604
Compensated Absences	9,682	(9,536)
Customer Deposits	2,035	(2,775)
Liabilities Payable from Restricted Assets	6,644	4,395
	<hr/>	<hr/>
Net Cash Provided by Operating Activities	<u>\$ 2,016,408</u>	<u>\$ 1,869,384</u>
 <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Interest Paid	<u>\$ 29,037</u>	<u>\$ 61,118</u>
 <b>NONCASH FINANCING AND INVESTING ACTIVITIES</b>		
Capital Contributions of Capital Assets	\$ 324,641	\$ 78,490
Capital Asset Additions Included in Accounts Payable	\$ 110,903	\$ 33,932



**WATERLOO WATER WORKS  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization and Operation**

The Waterloo Water Works (the Water Works) is a component unit of the City of Waterloo, Iowa (the City). The Water Works provides water to customers in the cities of Waterloo, Elk Run Heights, Hudson, Raymond and adjacent areas of Black Hawk County. The Water Works' rates are set by its governing board. The Water Works is governed by a three-member Board of Trustees. Board members are appointed by the City Council to six-year terms. The financial statements presented here are also included in the financial statements of the City.

The accounting policies of the Water Works conform to generally accepted accounting principles.

**Financial Reporting Entity**

Component units are legally separate entities for which the Water Works (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit include whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit.

Based on these criteria, there are no organizations considered to be component units of the Water Works.

**Basis of Accounting**

The accrual basis of accounting is used by the Water Works. Under this method, revenues are recorded when earned and expenses are recorded when the related fund liability is incurred.

The Water Works distinguishes operating revenues and expenses from other items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with ongoing operations. The principal operating revenue of the Water Works is charges to customers for sales of water. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Water Works' policy to use restricted resources first, and then unrestricted resources as they are needed.

**WATERLOO WATER WORKS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014 AND 2013**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Measurement Focus**

The accounting and reporting treatment applied to the capital assets and long-term liabilities associated with a fund are determined by its measurement focus. Water Works is accounted for on a full accrual, economic resource basis. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheet. The Water Works' net position is reported in three parts: (1) net investment in capital assets; (2) restricted net position; and (3) unrestricted net position.

**Capital Assets**

Capital Assets are recorded at cost, less depreciation calculated using the straight-line method over the assets' estimated useful lives as follows:

Type	Estimated Useful Lives
Buildings and Improvements	10 - 99 Years
Water Supply System	10 - 99 Years
Distribution System	10 - 60 Years
Meters and Equipment	5 - 63 Years
Machinery and Equipment	3 - 40 Years

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, cash equivalents are defined as short-term, highly liquid investments that are both:

- A. Readily convertible to known amounts of cash, or
- B. So near their maturity that they present insignificant risk of changes in value because of changes in interest rates.

The Water Works' policy considers cash equivalents to be those that meet the above criteria and have maturities of three months or less when purchased.

Cash and cash equivalents consist of checking, savings, certificates of deposit and cash on hand.

**Accounts Receivable**

Water sales are estimated for the period from the previous billing to year end and are included in revenue and accounts receivable. At December 31, 2014 and 2013, there is no allowance for doubtful accounts reflected in the financial statements. Accounts receivable are uncollateralized.

**Inventories**

Inventory is stated at average cost.

**WATERLOO WATER WORKS  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Compensated Absences**

In accordance with the Water Works' policy, all employees accrue vacation on their anniversary year date and not on a calendar year end. No vacation time can be carried over after the anniversary date.

Sick leave is accrued on a calendar year-end. Each employee accrues 56 hours per year. Employees are allowed to carry over 75% into the next year and the remaining 25% is paid out. The accrued vacation and sick pay balance is \$61,600 and \$51,918 at December 31, 2014 and 2013, respectively.

**Net Position**

Net position represents the difference between assets and liabilities in the government-wide financial statements and is classified into three components:

- a) Net investment in capital assets – This component consists of capital assets net of accumulated depreciation and reduced by the amount of outstanding balance of bonds or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- b) Restricted net position – Net position with constraints placed on the use either by 1) external groups such as creditors, grantors, or laws or regulations of other governments; or 2) law through constitutional provisions or enabling legislation are reflected in this component.
- c) Unrestricted net position – All other net position that does not meet the definition of "restricted" or "net investment in capital assets."

**Reclassifications**

Certain reclassifications have been made to the prior period financial statements to conform to the current year presentation. The reclassifications had no effect on the change in net position.

**NOTE 2 CASH AND INVESTMENTS**

The Water Works' deposits in banks at December 31, 2014 and 2013 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

**WATERLOO WATER WORKS  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**NOTE 2 CASH AND INVESTMENTS (CONTINUED)**

The Water Works is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-ended management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Water Works had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

At June 30, the Water Works' deposits consisted of cash and certificates of deposit as follows:

	<u>2014</u>	<u>2013</u>
Cash on Hand	\$ 1,800	\$ 1,800
Certificates of Deposit	580,000	580,000
Cash and Cash Equivalents	<u>5,389,824</u>	<u>5,725,575</u>
Total Cash and Deposits	<u>\$ 5,971,624</u>	<u>\$ 6,307,375</u>

**NOTE 3 RESTRICTED CERTIFICATES OF DEPOSITS**

Restricted certificate of deposits represent monies set aside under terms of bond covenants and to provide security for deposits and advances. The composition of these funds as of December 31, 2014 and 2013 was as follows:

<b>2014</b>	<b>Restricted Assets</b>	<b>Corresponding Liability</b>	<b>Restricted Net Position</b>
Customer Deposits (Certificates of Deposit)	\$ 149,980	\$ 149,980	\$ -
Total	<u>\$ 149,980</u>	<u>\$ 149,980</u>	<u>\$ -</u>
<b>2013</b>			
Customer Deposits (Certificates of Deposit)	\$ 143,336	\$ 143,336	\$ -
Capital Loan Note Covenants			
Debt Reserve	<u>330,000</u>	<u>-</u>	<u>330,000</u>
Total	<u>\$ 473,336</u>	<u>\$ 143,336</u>	<u>\$ 330,000</u>

During 2014, the Water Works refunded Capital Loan Note, Series 2007 with a new note that no longer required the Water Works to hold a debt reserve.

**WATERLOO WATER WORKS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014 AND 2013**

**NOTE 4 CAPITAL ASSETS**

A summary of capital asset activity for the year ended December 31, 2014 and 2013 is as follows:

	Beginning Balance 1/1/2013	Additions	Retirements/ Transfers	Ending Balance 12/31/2013
Capital Assets, Not Being Depreciated				
Land	\$ 270,896	\$ -	\$ -	\$ 270,896
Construction in Progress	106,067	1,786,768	(1,620,996)	271,839
Total Capital Assets, Not Being Depreciated	376,963	1,786,768	(1,620,996)	542,735
Capital Assets, Being Depreciated				
Buildings and improvements	1,754,291	-	-	1,754,291
Water Supply System	6,038,874	53,925	-	6,092,799
Distribution System	19,960,281	106,097	1,620,996	21,687,374
Meters and Equipment	1,468,956	-	(295,362)	1,173,594
Machinery and Equipment	1,832,847	174,151	(25,114)	1,981,884
Total Capital Assets, Being Depreciated	31,055,249	334,173	1,300,520	32,689,942
Less Accumulated Depreciation				
Buildings and improvements	(727,570)	(28,197)	-	(755,767)
Water Supply System	(2,698,139)	(185,831)	-	(2,883,970)
Distribution System	(3,936,531)	(274,498)	-	(4,211,029)
Meters and Equipment	(822,026)	(31,045)	191,907	(661,164)
Machinery and Equipment	(1,197,075)	(92,746)	20,682	(1,269,139)
Total Accumulated Depreciation	(9,381,341)	(612,317)	212,589	(9,781,069)
Net Capital Assets, Being Depreciated	21,673,908	(278,144)	1,513,109	22,908,873
Net Capital Assets	22,050,871	1,508,624	(107,887)	23,451,608

**WATERLOO WATER WORKS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014 AND 2013**

**NOTE 4 CAPITAL ASSETS (CONTINUED)**

	Beginning Balance 1/1/2014	Additions	Retirements/ Transfers	Ending Balance 12/31/2014
Capital Assets, Not Being Depreciated				
Land	\$ 270,896	\$ 36,104	\$ -	\$ 307,000
Construction in Progress	<u>271,839</u>	<u>2,015,590</u>	<u>(1,387,998)</u>	<u>899,431</u>
Total Capital Assets, Not Being Depreciated	542,735	2,051,694	(1,387,998)	1,206,431
Capital Assets, Being Depreciated				
Buildings and improvements	1,754,291	5,911	-	1,760,202
Water Supply System	6,092,799	43,651	457,728	6,594,178
Distribution System	21,687,374	324,640	864,135	22,876,149
Meters and Equipment	1,173,594	-	-	1,173,594
Machinery and Equipment	<u>1,981,884</u>	<u>146,175</u>	<u>(46,652)</u>	<u>2,081,407</u>
Total Capital Assets, Being Depreciated	32,689,942	520,377	1,275,211	34,485,530
Less Accumulated Depreciation				
Buildings and improvements	(755,767)	(28,582)	-	(784,349)
Water Supply System	(2,883,970)	(193,041)	-	(3,077,011)
Distribution System	(4,211,029)	(312,397)	18,939	(4,504,487)
Meters and Equipment	(661,164)	(30,035)	-	(691,199)
Machinery and Equipment	<u>(1,269,139)</u>	<u>(106,757)</u>	<u>32,473</u>	<u>(1,343,423)</u>
Total Accumulated Depreciation	(9,781,069)	(670,812)	51,412	(10,400,469)
Net Capital Assels, Being Depreciated	<u>22,908,873</u>	<u>(150,435)</u>	<u>1,326,623</u>	<u>24,085,061</u>
Net Capital Assels	<u>23,451,608</u>	<u>1,901,259</u>	<u>(61,375)</u>	<u>25,291,492</u>

**WATERLOO WATER WORKS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014 AND 2013**

**NOTE 5 LONG-TERM DEBT**

Bonds outstanding at December 31, 2014 and 2013 are comprised of the following:

Description of Issue	Interest Rate	Issue Date	Final Maturity	Original Issue	Principal Outstanding 2014	Principal Outstanding 2013
Water Revenue Refunding						
Capital Note, Series 2007	3.6-4.0%	1/7/2007	1/1/2017	\$ 3,300,000	\$ -	\$ 1,125,000
Water Revenue Refunding						
Capital Note, Series 2014	0.95%	7/29/2014	1/1/2016	\$ 809,000	416,000	-
Total Water Revenue Capital Notes					416,000	1,125,000
Bond Discount					-	(6,392)
Compensated Absences Payable					61,600	51,918
					<u>\$ 477,600</u>	<u>\$ 1,170,526</u>

The Water Works has pledged future gross revenue, net of specified operating expenses to repay \$809,000 in water revenue capital loan notes issued on July 29, 2014. Proceeds from the notes were used for the refunding of the Series 2007 capital loan notes. The refunding resulted in an economic savings of \$24,315, with a present value of \$22,937.

Principal and Interest payments required on existing long-term debt are:

Year Ending December 31,	<u>Water Revenue Capital Notes</u>	
	<u>Principal</u>	<u>Interest</u>
2015	\$ -	\$ -
2016	416,000	1,976
Total	<u>\$ 416,000</u>	<u>\$ 1,976</u>

A summary of long-term debt activity for the year ended December 31, 2014 and 2013 is as follows:

Description	Beginning Balance 1/1/2013	Additions	Retirements/ Refunded	Ending Balance 12/31/2013	Due Within One Year
Water Revenue Capital					
Loan Note, Series 2007	\$ 1,470,000	\$ -	\$ 345,000	\$ 1,125,000	\$ 360,000
Bond Premium	(9,588)	-	(3,196)	(6,392)	(3,196)
Compensated Absences	61,454	135,016	144,552	51,918	51,918
Total Debt	<u>\$ 1,521,866</u>	<u>\$ 135,016</u>	<u>\$ 486,356</u>	<u>\$ 1,170,526</u>	<u>\$ 408,722</u>

**WATERLOO WATER WORKS  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**NOTE 5 LONG-TERM DEBT (CONTINUED)**

Description	Beginning Balance 1/1/2014	Additions	Retirements/ Refunded	Ending Balance 12/31/2014	Due Within One Year
Water Revenue Capital					
Loan Note, Series 2007	\$ 1,125,000	\$ -	\$ 1,125,000	\$ -	\$ -
Water Revenue Capital					
Loan Note, Series 2014	-	809,000	393,000	416,000	-
Bond Premium	(6,392)	-	(6,392)	-	-
Compensated Absences	51,918	139,843	130,161	61,600	61,600
Total Debt	<u>\$ 1,170,526</u>	<u>\$ 948,843</u>	<u>\$ 1,641,769</u>	<u>\$ 477,600</u>	<u>\$ 61,600</u>

Debt indentures require that certain covenants relating to the maintenance and efficiency of the operating system, the rate structure, restrictions on borrowings, leasing or disposition of assets and minimum insurance coverage be adhered to. During 2014 and 2013, the Water Works was in compliance with required covenants.

**NOTE 6 DEFINED BENEFIT PENSION PLANS**

The Water Works contributes to the Waterloo Water Works Pension Plan (Plan) and the Iowa Public Employees Retirement System (IPERS).

**Waterloo Water Works Pension Plan**

*Plan Description:* The Waterloo Water Works Pension Plan is a single-employer defined benefit plan administered by the Pension Committee of Waterloo Water Works. The Plan provides retirement benefits to plan members and beneficiaries. Cost-of-living adjustments are provided to members and beneficiaries at the discretion of the Committee. The Plan does not issue a stand-alone financial report. The actuarial report on the Plan is held at the Water Works' office.

*Funding Policy:* The contribution requirements of the Plan members (employees) and the Water Works are established and may be amended by the Water Works. Mandatory contributions to the plan are equal to the IPERS rate effective January 1 of the previous year. Prior to 2010, plan members contributions were not required and the Water Works made all the required contributions. Beginning January 1, 2010, plan members were required to contribute one-third of the full contribution rate of 4.1% and the Water Works paid the rest of the required contribution. As of January 1, 2011, plan members were required to contribute two-thirds of the full contribution. As of January 1, 2011, plan members were required to contribute two-thirds of the full contribution rate of 4.3% and beginning January 1, 2012 plan members were required to contribute all of the mandatory contributions. The vesting period also changed from 12 years to 4 years as of January 1, 2010.



**WATERLOO WATER WORKS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014 AND 2013**

**NOTE 6 DEFINED BENEFIT PENSION PLANS (CONTINUED)**

**Waterloo Water Works Pension Plan (Continued)**

*Annual Pension Cost and Net Pension Obligation:* The Water Works' annual pension cost and net pension (asset) obligation to the Plan for the year ended December 31:

	2014	2013
Annual required contribution	\$ 481,861	\$ 480,199
Interest on net pension obligation	-	-
Adjustment to annual required contribution	-	-
Annual pension cost	481,861	480,199
Contributions made (Water Works)	(481,861)	(480,199)
Change in net pension obligation	-	-
Net pension obligation, January 1	-	-
Net pension obligation, December 31	\$ -	\$ -

**Three-Year Trend Information**

Year Ended	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation (Asset)
December 31, 2012	\$ 423,689	100%	\$ -
December 31, 2013	\$ 480,199	100%	\$ -
December 31, 2014	\$ 481,861	100%	\$ -

*Funded Status and Funding Progress:* As of January 01, 2014, the most recent actuarial valuation date, the Water Works' unfunded actuarial accrued liability (UAAL) was \$2,755,576. The annual payroll for active employees covered by the plan in the actuarial valuation was \$1,064,651 for a ratio of UAAL to covered payroll of 258.8%.

The Water Works' Board of Trustees have approved contributions to the Plan in excess of the annual pension cost as determined by the actuary in an effort to eliminate over time the unfunded pension liability as computed by the actuary.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**WATERLOO WATER WORKS  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**NOTE 6    DEFINED BENEFIT PENSION PLANS (CONTINUED)**

**Waterloo Water Works Pension Plan (Continued)**

*Actuarial Methods and Assumptions:* The annual pension cost for 2014 was determined as part of the actuarial valuation using the January 1, 2014 projection unit credit cost method. The actuarial assumptions included (a) 8% investment rate of return (net of administrative expenses) and (b) projected salary increases of 3% per year, compounded annually and retirement at age 62 with 30 years of service. The assumptions did not include any postretirement benefits. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis over a 20 year period. The remaining amortization period at December 31, 2014 ranged from 14 years to 20 years.

**Iowa Public Employees Retirement System (IPERS)**

*Plan Description:* The Water Works contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

*Funding Policy:* Plan members are required to contribute 5.95% of their annual salary and the Water Works is required to contribute 8.93% of annual covered payroll. Contribution requirements are established by state statute. The Water Works' contribution to IPERS for the years ended December 31, 2014, 2013, and 2012 were \$79,066, \$70,659, and \$56,189, respectively, equal to the required contributions for each year.

**NOTE 7    PROPERTY UNDER LEASE AGREEMENTS**

The Water Works is the lessor of space on towers under various operating lease agreements. The lease agreements expire at various times through 2018. Current monthly rent income is approximately \$13,000 per month.

At December 31, 2014 future minimum lease payments receivable under the non-cancelable operating leases are as follows:

Year Ending December 31,	
2015	\$ 144,900
2016	98,875
2017	27,375
2018	21,672

**WATERLOO WATER WORKS  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**NOTE 8 RELATED PARTY TRANSACTIONS**

The Water Works provides customer file maintenance, meter reading, billing and collecting services for the City of Waterloo's (City) Sanitation (Garbage) and Sanitary Sewer Enterprise Funds and keeps 1 % of cash collected as a service fee. During 2014 and 2013, the Water Works recorded \$124,590 and \$123,033, respectively, as City service fees and forwarded approximately \$12,600,000 and \$12,300,000 during 2014 and 2013, respectively, to the City. As of December 31, 2014 and 2013, the Water Works' payables to the City were \$1,186,475 and \$1,191,907, for garbage, sewer and storm water collections, respectively. The Water Works pays office expenses (data processing charges, postage and other expenses of the billing cycle) and passes approximately one-half of those costs on to the City. During 2014 and 2013, the Water Works received approximately \$75,000 and \$67,000, respectively, from the City which reduced office expenses.

The Water Works also provides metered and unmetered water to the City at no charge. Metered water furnished to the City is valued at equivalent sales rates and is included in the financial statements as water sales revenue and water services contributed to the City of Waterloo. During the years ended December 31, 2014 and 2013, the Water Works provided metered water to the City valued at approximately \$270,000 and \$250,000, respectively.

**NOTE 9 RISK MANAGEMENT**

The Water Works is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; business interruption; error or omissions; employee's injuries and illnesses; or natural disasters. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

**NOTE 10 COMMITMENTS**

The Water Works began working on water main extension projects and other various projects. As of December 31, 2014, the Water Works expects the remaining costs of the existing contracts to be \$219,517.

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## **REQUIRED SUPPLEMENTARY INFORMATION**

**WATERLOO WATER WORKS  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS FOR PENSION PLAN**

Actuarial Valuation Date	Actuarial Value of Assets ( a )	Actuarial Accrued Liability (AAL) ( b )	Unfunded AAL ( b-a )	Funded Ratio ( a/b )	Covered Payroll ( c )	UAAL as a Percentage of Covered Payroll ( ( b-a)/c )
January 1, 2009	\$ 3,527,489	\$ 6,329,986	\$ 2,802,497	55.7%	\$ 1,374,782	203.9%
January 1, 2010	4,099,112	6,544,272	2,445,160	62.6%	1,306,209	187.2%
January 1, 2011	4,231,215	6,759,005	2,527,790	62.6%	1,248,200	202.5%
January 1, 2012	4,240,705	6,928,260	2,687,555	61.2%	1,105,893	243.0%
January 1, 2013	4,191,914	7,169,213	2,977,299	58.5%	1,100,185	270.6%
January 1, 2014	4,623,557	7,379,133	2,755,576	62.7%	1,064,651	258.8%

## **SUPPLEMENTARY INFORMATION**

**WATERLOO WATER WORKS**  
**SUPPLEMENTARY INFORMATION**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION**  
**BUDGET AND ACTUAL (CASH BASIS)**  
**YEAR ENDED DECEMBER 31, 2014 AND 2013**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>2014 Actual Cash Basis</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b>OPERATING REVENUES</b>				
Water Sales	\$ 7,880,500	\$ 7,880,500	\$ 7,430,932	\$ (449,568)
Fire Protection	<u>99,000</u>	<u>99,000</u>	<u>99,983</u>	<u>983</u>
Total Operating Revenue	7,979,500	7,979,500	7,530,324	(449,176)
<b>OPERATING EXPENSES</b>				
Salaries and Benefits	3,314,610	3,314,610	3,360,420	(45,810)
Contractual Services	999,700	999,700	1,001,607	(1,907)
Commodities	<u>7,451,925</u>	<u>7,451,925</u>	<u>3,577,123</u>	<u>3,874,802</u>
Total Operating Expenditures	11,766,235	11,766,235	7,939,150	3,827,085
<b>OPERATING INCOME (LOSS)</b>	(3,786,735)	(3,786,735)	(408,826)	(4,276,261)
<b>NON-OPERATING INCOME (LOSS)</b>				
Other Sales and Services	400,000	400,000	624,930	224,930
Interest Income	21,000	21,000	30,082	9,082
Interest Expense	(44,640)	(44,640)	(29,037)	15,603
Amortization	(362,000)	(362,000)	(723,032)	(361,032)
Billboard and Antenna Rent	<u>111,500</u>	<u>111,500</u>	<u>139,865</u>	<u>28,365</u>
Total Non-Operating Income (Loss)	<u>125,860</u>	<u>125,860</u>	<u>42,808</u>	<u>(83,052)</u>
Income (Loss) Before Contributions and Transfers	(3,660,875)	(3,660,875)	(366,018)	(4,359,313)
<b>CAPITAL CONTRIBUTIONS</b>				
Capital Contributions	<u>8,000</u>	<u>8,000</u>	<u>30,620</u>	<u>22,620</u>
<b>CHANGE IN FUND BALANCE</b>	(3,652,875)	(3,652,875)	(335,398)	(4,336,693)
<b>Fund Balance - Beginning of Year</b>	<u>5,184,170</u>	<u>5,184,170</u>	<u>5,184,170</u>	<u>-</u>
<b>Fund Balance - End of Year</b>	<u>\$ 1,531,295</u>	<u>\$ 1,531,295</u>	<u>\$ 4,848,772</u>	<u>\$ (4,336,693)</u>



**WATERLOO WATER WORKS  
NOTES TO SUPPLEMENTARY INFORMATION  
DECEMBER 31, 2014 AND 2013**

**NOTE 1    BUDGETARY INFORMATION**

In accordance with the Code of Iowa, the Water Works annually adopts a budget on the cash basis following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

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## **OTHER REPORTS SECTION**

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER  
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Trustees  
Waterloo Water Works  
Waterloo, Iowa

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements Waterloo Water Works, a component unit of the City of Waterloo, Iowa as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise Waterloo Water Works' basic financial statements and have issued our report thereon dated May 12, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Waterloo Water Works' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Water Works' internal control. Accordingly, we do not express an opinion on the effectiveness of the Water Works' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Water Works' financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in the accompanying Schedule of Findings and Responses listed as items 2014-001 through 2014-003 to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Waterloo Water Works' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Water Works' operations for the year ended December 31, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Water Works. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

### **Responses to Findings**

Waterloo Water Works' responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. Waterloo Water Works' responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Water Works' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Water Works' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Cedar Rapids, Iowa  
May 12, 2015

**WATERLOO WATER WORKS  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED DECEMBER 31, 2014**

**PART I: SUMMARY OF AUDITORS' RESULTS**

- (a) An unmodified opinions was issued on the financial statements.
- (b) Material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) No instances of noncompliance material to the basic financial statements of Waterloo Water Works were disclosed during the audit.

**WATERLOO WATER WORKS  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED DECEMBER 31, 2014**

**PART II: FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS  
INTERNAL CONTROL DEFICIENCIES:**

**2014-001                      ANNUAL FINANCIAL REPORTING UNDER GENERALLY ACCEPTED  
ACCOUNTING PRINCIPLES (GAAP)**

**Condition:** Management is responsible for establishing and maintaining internal controls and for the fair presentation of the financial statements including the related disclosures, in conformity with U.S. generally accepted accounting principles (GAAP).

**Criteria:** The Water Works does not have an internal control policy in place over annual financial reporting that would enable management to prepare its annual financial statements and related footnote disclosures are complete and presented in accordance with GAAP.

**Context:** Management has informed us that they do not have an internal control policy in place over the annual financial reporting and that they do not have the necessary staff capacity to prepare the annual financial statements including footnote disclosures.

**Effect:** The potential exists that a material misstatement of the annual financial statements could occur and not be prevented or detected by the Water Works' internal controls.

**Cause:** The Water Works relies on the audit firm to prepare the annual financial statements and related footnote disclosures. However, they have reviewed and approved the annual financial statements and the related footnote disclosures.

**Recommendation:** Management should continue to evaluate their internal staff capacity to determine if an internal control policy over the annual financial reporting is beneficial.

**CORRECTIVE ACTION PLAN (CAP):**

**Explanation of Disagreement with Audit Findings**

There is no disagreement with the audit finding.

**Actions Planned in Response to Finding:**

The Water Works will continue to engage the audit firm to prepare the annual financial statements. However, the General Manager and the Office Manager will review a draft of the statements and related note disclosures.

**Official Responsible for Ensuring CAP:**

Dennis Clark, General Manager is the official responsible for ensuring corrective action of the deficiency.

**Planned Completion Date for CAP:**

December 31, 2015.

**Plan to Monitor Completion of CAP:**

The Board of Trustees will be monitoring this corrective action plan.

**WATERLOO WATER WORKS  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED DECEMBER 31, 2014 AND 2013**

**PART II: FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

**2014-002                      LACK OF REVIEW AND AUTHORIZATION FOR JOURNAL ENTRIES**

<b>Condition:</b>	The Water Works does not have procedures in place for the review and authorization of manual journal entries. All five journal entries tested were not reviewed and authorized by someone independent of preparing the entries.
<b>Criteria:</b>	The Water Works should develop procedures to have all manual journal entries reviewed and authorized before they are posted to the general ledger.
<b>Context:</b>	The Water Works did not have procedures in place to review and authorize journal entries.
<b>Effect:</b>	The potential exists that a material misstatement could occur in the financial statements and not be prevented or detected by the Water Works' internal controls.
<b>Cause:</b>	The Water Works does not have procedures in place to review and authorize journal entries.
<b>Recommendation:</b>	The Water Works should have procedures in place for the review and authorization of journal entries.

**CORRECTIVE ACTION PLAN (CAP):**

**Explanation of Disagreement with Audit Findings**

There is no disagreement with the audit finding.

**Actions Planned in Response to Finding:**

The Water Works will create a policy for the review and authorization of journal entries.

**Official Responsible for Ensuring CAP:**

Dennis Clark, General Manager is the official responsible for ensuring corrective action of the deficiency.

**Planned Completion Date for CAP:**

December 31, 2015.

**Plan to Monitor Completion of CAP:**

The Board of Trustees will be monitoring this corrective action plan.



**WATERLOO WATER WORKS  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED DECEMBER 31, 2014 AND 2013**

**PART II: FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

**2014-003                      LACK OF REVIEW AND APPROVAL OF BANK RECONCILIATIONS**

**Condition:**                      There was no review or approval on the monthly bank reconciliations.

**Criteria:**                        The Water Works should have controls in place to prevent or detect a material misstatement in the financial statements in a timely manner.

**Context:**                        The Water Works did not have adequate internal controls over their bank reconciliation.

**Effect:**                         The potential exists that a material misstatement could occur in the financial statements and not be prevented or detected by the Water Works' internal controls.

**Cause:**                         The Water Works does not have a review and approval process over its monthly bank reconciliations.

**Recommendation:**        The Water Works should have procedures in place for the review and authorization of monthly bank reconciliations.

**CORRECTIVE ACTION PLAN (CAP):**

**Explanation of Disagreement with Audit Findings**

There is no disagreement with the audit finding.

**Actions Planned in Response to Finding:**

The Water Works will start to have the monthly bank reconciliations reviewed and approved by an independent reviewer.

**Official Responsible for Ensuring CAP:**

Dennis Clark, General Manager is the official responsible for ensuring corrective action of the deficiency.

**Planned Completion Date for CAP:**

December 31, 2015

**Plan to Monitor Completion of CAP:**

The Board of Trustees will be monitoring this corrective action plan.

**WATERLOO WATER WORKS  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED DECEMBER 31, 2014 AND 2013**

**PART III: Other Findings Related to Required Statutory Reporting:**

- III-A-14**      Certified Budget - No disbursements during the year ended December 31, 2014 exceeded the amended certified budget amounts.
- III-B-14**      Questionable Disbursements – We noted no disbursements that fail to meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- III-C-14**      Travel Expense – No disbursements of the Water Works money for travel expenses of spouses of Water Works officials or employees were noted.
- III-D-14**      Business Transactions – No transactions between the Water Works and Water Works’ officials or employees were noted.
- III-E-14**      Bond Coverage – Surety bond coverage of Water Works officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- III-F-14**      Revenue Notes – As of December 31, 2014, the Water Works was in compliance with funding and payment provisions of the revenue note resolutions.
- III-J-14**      Notice of Public Hearing for Public Improvements – The Water Works has published a notice of public hearing for all public improvement projects, during 2014, as required by Chapters 26.12 and 362.3 and the Code of Iowa.
- III-G-14**      Board Minutes – No transactions were found that we believe should have been approved in the board minutes but were not.
- III-H-14**      Deposits and Investments – No instances of noncompliance were noted with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Water Works’ investment policy.
- III-I-14**      Financial Condition – The Water Works did not have a deficit balance at December 31, 2014.